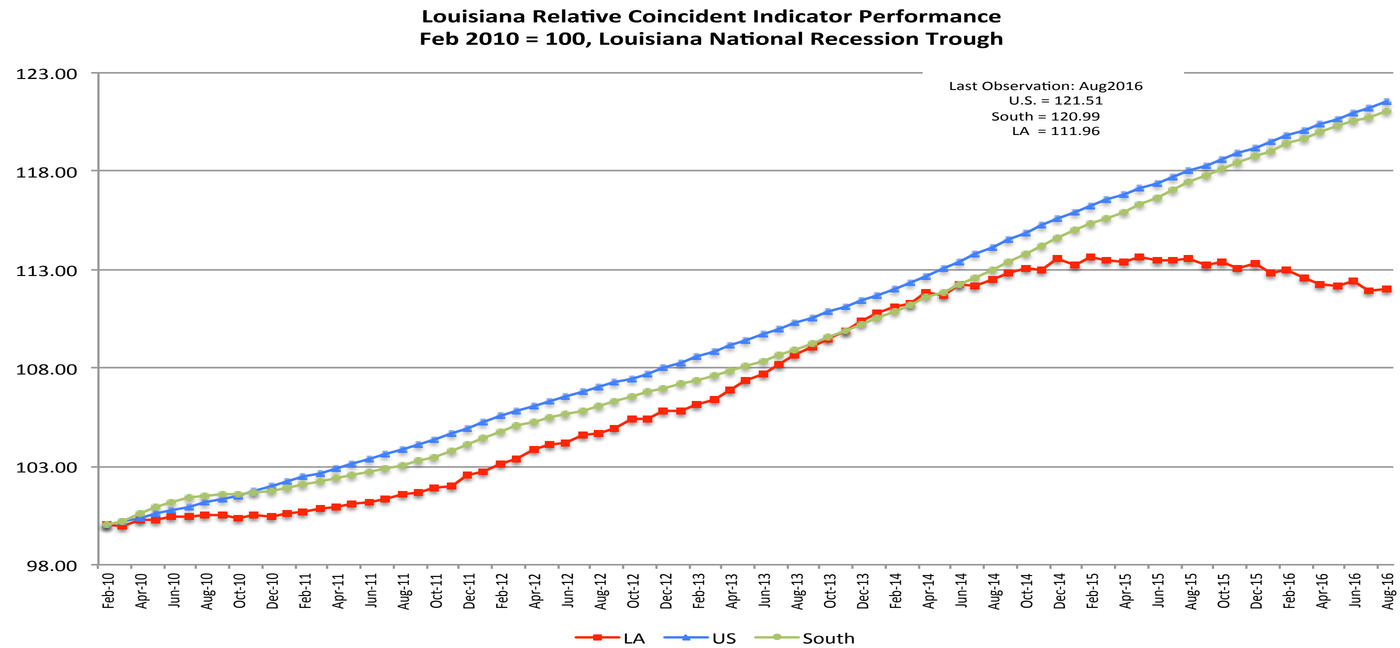
Relative Economic Indicator Performance, August 2016



The Federal Reserve Bank of Philadelphia produces a monthly coincident indicator for each state and the nation as a whole. These indicators summarize current economic conditions in a single statitstic and are consistently constructed across all states. The indicator is composed of nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and inflation adjusted wage & salary disbursements.; economic metrics routinely generated by the U.S. Department of Labor and Department of Commerce.

In the graph above, an index of the indicators for Louisiana, the South[1], and the nation as a whole are displayed. The base period is established as February 2010, the employment trough for Louisiana during the 08/09 recession, and values at each month then represent the percent change from the base period for each region. This allows each region's performance to be compared over the course of the current recovery/expansion phase of the business cycle. As of August 2016 Louisiana's indicators are 11.96% greater than in February 2010. The indicators for the South are 20.99% greater, and for the nation as a whole 21.51% greater.

Of note in this graph is the State's relatively lagging performance as summarized by the combination of these four metrics. Over the course of the economic recovery to date, the Louisiana index is approximately 44% lower than that of the national economy, and some 43% lower than that of the South. Louisiana has had private sector employment growth comparable to the South and the nation over much of this period, as well as a materially lower unemployment rate for much of the period. However, the unemployment position has reversed itself in 2014, and apparent relative weakness in the other components of the Philadelphia index; average hours worked in manufacturing, inflation adjusted wage & salary disbursements, and total employment growth (inclusive of government employment) have contributed to a lagging coincident performance relative to the South and the nation as a whole. These weaknesses have become much more apparent since the late-2004 and early-2015 as the dramatic drop in oil prices beginning around mid-2014 has persisted and negatively affected the state' economy.

[1] Here the south constitutes the U.S. Department of Labor, Bureau of Labor Statistics southeast region of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, plus the states of Arkansas and Louisiana.

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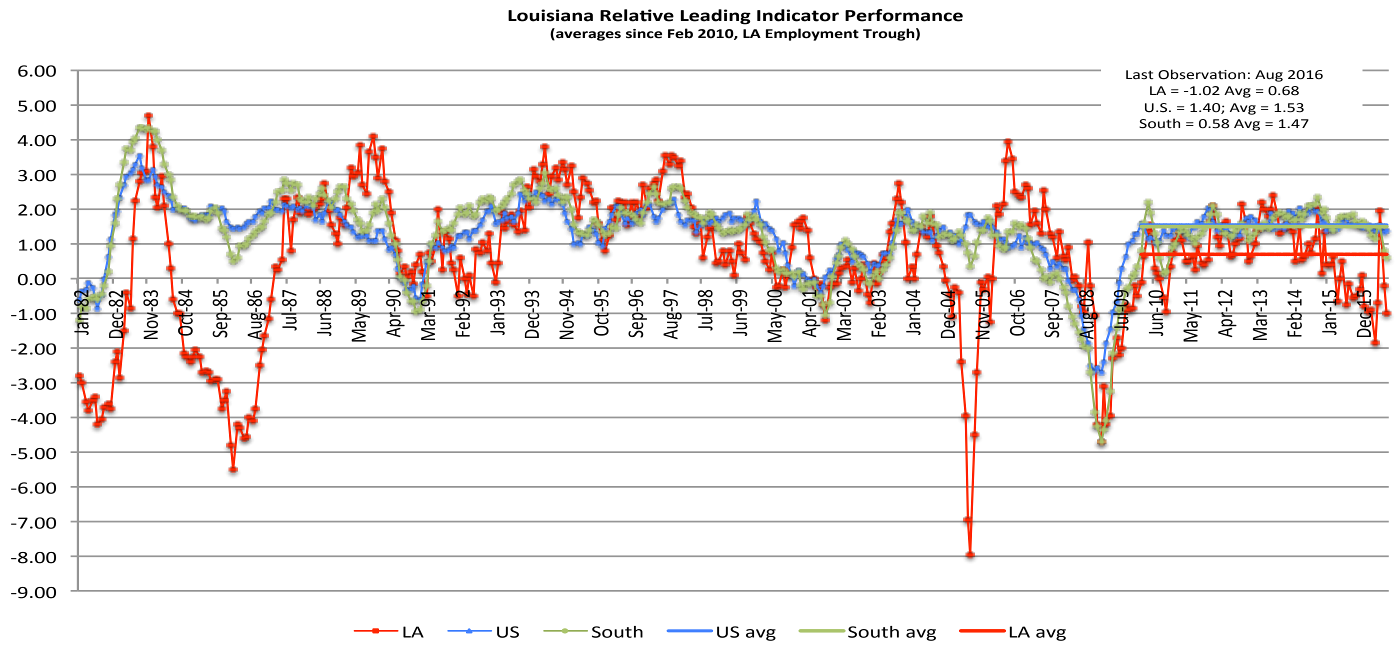

The Federal Reserve Bank of Philadelphia also produces a monthly leading indicator for each state and the nation as a whole. The leading indicator is designed to predict the six-month growth rate of the coincident indicator, and incorporates metrics that tend to lead the economy such as housing permits, initial unemployment insurance claims, delivery times, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. These metrics are routinely generated by the U.S Census Bureau, the U.S. Department of Labor, the Institute for Supply Management, and the Federal Reserve.

Of note in this graph is the volatility of this indicator, resulting from a few factors. Monthly observations of any metric of the economy tend to be fairly volatile, and this one is essentially growth rates on a monthly frequency. Also, note that the smaller the region the more volatile the metrics tend to be, where the indicator for the single state of Louisiana is much more volatile than for the larger regions of the South and the nation as a whole. To get a better sense of the relative performance of this indicator over the course of the economic recovery, the average value of each region's indicator since February 2010 is included as the horizontal lines on the right hand end of the graph. Over this period, the Louisiana leading indicator has predicted average six-month growth of the state's coincident indicator of 0.68%. This compares to 1.47% for the South[2] and 1.53% for the nation as a whole.

As a simple check on this prediction, actual average six-month growth of the coincident indicators has been about 0.94% for the Louisiana, 1.48% for the South, and 1.52% for the nation as a whole. The leading indicator's prediction of short-term growth in the coincident indicator has been fairly good for the broader regions of the South and the nation as a whole, and somewhat low for Louisiana. However, this Louisiana prediction may not be as understated as it seems. The path of the Louisiana coincident indicator began to diverge from the South and the U.S. in last quarter of 2013, exhibiting slower growth than in earlier periods, a halting step-up pattern in mid-2014, a distinct flattening from early-2015, and a fall-off from late 2015 to date. The faster growing earlier periods positively influence the average growth figure of the coincident indicator, but the lower average prediction of the leading indicator seems more reasonable since mid-2014. As the flattening and then decline in the coincident indicator has occurred, the average of the leading indicator has faltered, as well.

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